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DEPT. OF TRANSPORTATION
DOCKETS

BEFORE THE
U.S. DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.

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In the Matter of U.S.-Ecuador All-Cargo
Frequencies

)
) Docket OST-02-12503 - 12
) August 2 , 2002
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ANSWER OF ATLAS AIR, INC.

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August 2, 2002

BEFORE THE
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In the Matter of U.S.-Ecuador All-Cargo)	Docket OST-02-12503
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ANSWER OF ATLAS AIR, INC.

Five carriers, including Atlas,¹ have applied for a total of 21 U.S.-Ecuador all-cargo frequencies. Because only 15 are available for assignment in this proceeding, the Department has to engage in carrier selection. It can either assign some frequencies to each applicant or deny the frequency requests of one or more applicants in order to increase the number of frequencies assignable to the remaining applicants, thus maximizing the overall level of competition in the U.S.-Ecuador market. The Department should follow the latter course and also fully fund the Atlas request for six frequencies.

A thorough evaluation and fair comparison of applications leads to the unalterable conclusion that Atlas should be the first choice for a frequency assignment in this proceeding. Atlas has extensive experience in Latin America and has already devoted considerable resources to developing the U.S.-Ecuador market through the operation of charters. Additionally, its exclusive use of large 747-200 aircraft will provide assurance that the United States will derive maximum benefit from each frequency assigned. No other applicant can make both those claims.

¹ Common names are used herein.

As shown in Exhibit R-1, attached hereto, Atlas' use of its frequencies will offer more U.S.-Ecuador weekly capacity, and capacity per flight, than any other applicant. On a weight basis, Atlas' weekly capacity is more than twice that of Florida West and eight times that of Custom Air. Because it will use a highly efficient 747-200 aircraft, Atlas also will provide 20% more capacity per frequency than Arrow's mix of aircraft, more than twice the per-frequency capacity of Florida West's 767-300's and more than four times the per-frequency capacity of Custom Air's 727-200's. Like Atlas, Evergreen plans to use 747 freighters exclusively. Yet Evergreen envisions the use of the lower capacity, less efficient 747-100 series²; Atlas, in contrast, has no 747-100 aircraft in its fleet.

Arrow, of course, already is operating U.S.-Ecuador scheduled service. Of the remaining four applicants, only Atlas and Florida West can lay claim to any meaningful experience in the market. Florida West makes much of the 137 charter flights it operated between the United States and Ecuador between January 1 and June 15, 2002. As explained in our application and supplement, however, Atlas also has developed a substantial Ecuador charter program, operating between three and five flights per week since November 2001. *See* Exhibit 8.

As indicated above, the 767-300 aircraft that Florida West plans to use for Ecuador scheduled service has only one-half the weight-based capacity of Atlas' 747-200 freighter.

² Evergreen states only that it "proposes to operate two weekly round trips with B-747-100/200 freighter aircraft," which "are on hand and have a capacity of approximately 100 tons or more." Application at 2-3. According to Atlas materials, the maximum design payload of the 747-200 is 246,000 lbs., whereas that of the 747-100 is 215,000 lbs. The 747-200 thus has 14% more weight-based capacity than the 747-100 Evergreen might use.

Moreover, Florida West's service proposal is fraught with problems. When the Department invited the filing of Ecuador applications, it required each applicant to specify "the complete routings from origin to destination of all flights." June 14 Notice at 2. Florida West has failed to meet that requirement, noting only that it "will operate its nonstop Miami-Quito/Guayaquil scheduled services five times weekly" Application at 5. Florida West has not revealed whether its routings will be round robins (Miami-Quito-Guayaquil-Miami), roundtrip (Miami-Quito-Guayaquil-Quito-Miami) or something different. Further, Florida West states that "[d]uring periods in low traffic seasons" it will add stops in Panama City and Lima on southbound flights. *Id.* During them, Florida West will offer only three-stop U.S.-to-Ecuador service with a substantial backhaul via Lima. As Exhibit R-2 shows, mileage circuitry of that routing is 192%.

As an applicant, Evergreen also stands in marked contrast to Atlas. Evergreen's application touts the airline's experience in providing scheduled all-cargo service to Russia and the Asia Pacific region. The absence of a reference to South America scheduled service is striking. All Evergreen can assert is that it "has targeted the U.S.-South America market as evidenced by its recent applications for limited-entry Ecuador and Brazil authority." Application at 4. Evergreen's lack of experience providing South America scheduled service may be why the carrier proposes only two U.S.-Ecuador flights per week.³

³ As evidence of its commitment to South America scheduled service, Evergreen also cites a plan to enter the U.S.-Colombia market "initially through a code-sharing arrangement with TAMPA Airlines." Application at 5. Notably, Evergreen does not reveal any plans to serve Colombia with its own aircraft, and the code-share arrangement does not demonstrate a commitment to develop the U.S.-Colombia airfreight market in a

Of all of the new entrant applications for U.S.-Ecuador authority, that of Custom Air has the least merit. The carrier proposes to use the narrowbody 727-200 aircraft, which it reports has a weight-based capacity of only 58,000 pounds of cargo. As Exhibit R-3 shows, the 727-200 is not a freighter of choice for U.S.-South America scheduled all-cargo services. Additionally, as Custom Air concedes, the 727-200's "actual weight capacity would be higher, but the cargo to be transported – flowers – would fill the volumetric capacity of the aircraft at about that weight." Custom Air Application at 3. The 747-200 aircraft that Atlas plans to use does not have that problem.

Custom Air mentions the possibility of using a DC-10-10 or DC-10-30, but the Department ought to discount that as a decisional factor. The carrier concedes that it does not currently have either type of DC-10 in its fleet, states only generally that it "plans to acquire several in the coming months" and advises that it has started the requisite FAA process. Custom Air Application at 3. These facts seriously detract from the supposed "value of being able to serve the market with either narrowbody or widebody aircraft." Custom Air Supplement at 2-3.

Furthermore, unlike all other applicants, Custom Air totally lacks experience providing scheduled international air service. Its DOT scheduled authority is limited to the domestic sphere and it reports recently having submitted fitness information to enable the Department to determine whether the carrier should be permitted to obtain scheduled

meaningful way. Evergreen fails to mention that the referenced code-share arrangement with TAMPA (in Docket OST-02-12539) covers only U.S. mail.

foreign authority. Also, in sharp contrast to Atlas, Custom Air has claimed neither past charter operations in Ecuador nor any significant experience in South America.⁴

The remaining applicant, Arrow, should have its application scrutinized closely because it is an incumbent, with 33% of previously assigned frequencies. The issue is whether Arrow should receive additional frequencies when the consequence is to preclude competitive services by carriers that are not now in the U.S.-Ecuador scheduled all-cargo market.

Probably most notably, Arrow asks for five frequencies, yet its service proposal only requires two. Exhibit R-4. Awarding Arrow five frequencies would be a waste of valuable bilateral rights.

According to its Exhibit RW-B, moreover, Arrow is today providing 5 weekly scheduled narrowbody flights with DC-8 aircraft over a Miami-Quito-Guayaquil-Miami routing. Because of the elimination of the widebody frequency limitation in the recent round of U.S.-Ecuador negotiations, Arrow today can upgrade these flights to widebody aircraft, including the 747-200 and DC-10-30 freighters shown in its service proposal. By exercising these rights, Arrow can more than double its U.S.-Ecuador capacity. Exhibit R-5.

In short, Arrow can increase capacity greatly without additional frequencies, and its receipt of frequencies thus would be of only marginal benefit. Atlas believes that awarding

⁴ Custom Air reports only that it has developed marketing relationships in the flower industry and its parent company is brokering cargo charter flights to Colombia using the services of another direct air carrier.

Arrow frequencies would be contrary to the public interest if the result were to preclude a deserving new entrant applicant from fully implementing its own proposal.

When the Department decides this case, it should have as its primary goal the maximization of competitive impact. That goal will not be achieved if the Department awards frequencies to all five applicants and reduces the size of each award to satisfy the overall 15-frequency limit.

As the above discussion demonstrates, Atlas has shown its commitment to the Ecuador market by operating a large number of charters and, by using the 747-200 freighter, plans to maximize capacity on a per frequency basis. Atlas is requesting six frequencies in order to provide what in essence will be the first daily widebody service in the market.⁵ An award of fewer than six frequencies would diminish the positive impact of Atlas' proposed service. Atlas should receive the six frequencies it has requested.

For converse reasons, Custom Air should not be awarded any U.S.-Ecuador frequencies. The carrier has no Ecuador experience and little meaningful experience in South America, and its operation of a 727-200 aircraft would limit the bilateral benefit of its frequency usage. Custom Air can develop its presence in the Ecuador market through the operation of charters, just as Atlas and Florida West have done. The Department should deny Custom Air's request for frequencies so the scarce bilateral resource can be better utilized by Atlas and others.

If it fully funds Atlas' frequency request and denies Custom Air's request in its entirety, the Department will be maximizing the competitive impact in this proceeding.

ATLAS AIR, INC.
Answer

There still will be three new carriers providing competition for UPS, Gemini and Arrow, the three incumbents. Furthermore, Atlas will be in a position to compete most effectively by making the best use possible of its considerable South American experience.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Russell E. Pommer", with a long, sweeping horizontal line extending to the right.

Russell E. Pommer
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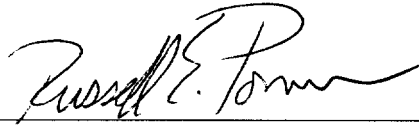
August 2, 2002

⁵ Atlas is not proposing service on Sundays because flowers are not cut in Ecuador on that day.

CERTIFICATE OF SERVICE

I hereby certify that I have, this 2nd day of August 2002, caused a copy of the foregoing answer and attached exhibits to be served by fax or hand delivery on all persons listed below:

<u>Name</u>	<u>Representing</u>
Jacquelyn Gluck	Arrow Air
Mark Atwood	Custom Air
John R. Mietus, Jr.	Evergreen
Charles F. Donley II	Florida West

A handwritten signature in black ink, appearing to read "Russell E. Pommer", written over a horizontal line.

Russell E. Pommer

ATLAS WILL PROVIDE MORE OVERALL AND PER-FLIGHT CAPACITY THAN THE OTHER APPLICANTS

Overall Capacity

Applicant	Weekly Flights Proposed	Total Weekly Weight-Based Capacity¹	Total Weekly Space-Based Capacity¹
Custom Air	3	174,000 lbs.	15,951 cu. ft.
Florida West	5	605,000 lbs.	77,670 cu. ft.
Arrow Air	7 ²	1,250,000 lbs. ²	154,539 cu. ft. ²
Evergreen	2	430,000 lbs. ³	51,674 cu. ft.
Atlas	6	1,476,000 lbs.	150,022 cu. ft.

	Total Weekly Weight-Based Capacity¹	Total Weekly Space-Based Capacity¹
Atlas as Percent of Custom Air	848%	941%
Atlas as Percent of Florida West	244%	193%
Atlas as Percent of Arrow Air ²	118%	97%
Atlas as Percent of Evergreen	343%	290%

¹ Weekly flights x aircraft capacity per Page 2 of this exhibit.

² Figures for Arrow Air include 5 existing flights.

³ Assumes use of 747-100F.

ATLAS WILL PROVIDE MORE OVERALL AND PER-FLIGHT CAPACITY THAN THE OTHER APPLICANTS

Capacity Per Aircraft

Applicant	Aircraft Type	Weight-Based Aircraft Capacity¹	Space-Based Aircraft Capacity²
Custom Air	727-200F	58,000 lbs.	5,317 cu. ft.
Florida West	767-300F	120,000 lbs.	15,534 cu. ft.
Arrow Air	DC-10-30F & 747-200F	178,600 lbs. ³	22,077 cu. ft. ³
Evergreen	747-100F or 747-200F	215,000 lbs. 246,000 lbs.	25,837 cu. ft. 25,837 cu. ft.
Atlas	747-200F	246,000 lbs.	25,837 cu. ft.

	Weight-Based Aircraft Capacity¹	Space-Based Aircraft Capacity²
Atlas as Percent of Custom Air	424%	486%
Atlas as Percent of Florida West	205%	166%
Atlas as Percent of Arrow Air	120%	117%
Atlas as Percent of Evergreen ⁴	114%	100%

¹ Per Atlas Exh. 7 or carrier's application where figure is included.

² Per Atlas Exh. 7.

³ Weighted average based on proposed use of 4 747-200F's and 3 DC-10-30F's .

⁴ Assumes use of 747-100F.

**THE CIRCUITY OF FLORIDA WEST' S "LO W SEASON"
SOUTHBOUND FLIGHTS WILL BE 192%**

Miami-Panama City mileage: 1163 mi.

Panama City-Lima mileage: 1458 mi.

Lima-Quito mileage: 825 mi.

Total: 3446 mi.

Miami-Quito mileage: 1794 mi.

Circuity: 192%

Source: OAG

**DISTRIBUTION OF SCHEDULED ALL-CARGO
DEPARTURES FROM MIAMI TO SOUTH AMERICA**

June 2002

Freighter A/C Type	Weekly Scheduled Departures From Miami to So. America	
	Departures	Percent
B -747	24	27.6%
MD-11	6	6.9%
B-767	3	3.4%
DC-8	26	29.9%
B 757	18	20.7%
B 707	3	3.4%
B 727	<u>7</u>	<u>8.0%</u>
Total	87	100.0%

Source: OAG Cargo Guide, June 2002.

**BY USING LARGER AIRCRAFT CONTEMPLATED BY ITS PROPOSAL,
ARROW COULD MORE THAN DOUBLE ITS U.S.-ECUADOR SCHEDULED
CAPACITY WITHOUT BEING ASSIGNED ADDITIONAL FREQUENCIES**

Weight-Based Capacity Analysis

Arrow's June 2002 U.S.-Ecuador Scheduled Service¹

Weekly Flights	Aircraft Type	Weight-Based Aircraft Capacity²	Total Weekly Capacity
5	DC-8	90,000 lbs.	450,000 lbs.

**Scheduled Service Arrow Could Now Operate With 747-200
Aircraft Shown in its Proposal**

Weekly Flights	Aircraft Type²	Weight-Based Aircraft Capacity²	Total Weekly Capacity
5	747-200	200,000 lbs.	1,000,000 lbs.

Bilaterally Permissible Capacity as % of Existing Capacity: 222%

¹ Per Arrow Application, Exh. JW-B

² Per Arrow Application, p.3, which reports capacity of 78,400 lbs. for the DC-8-62F, 90,000 lbs. for the DC-8-63F and 200,000 lbs. for the 727-200F. Arrow does not state in Exh. JW-B whether its current Ecuador schedule is operated with DC-8-62F or DC-8-63F aircraft. To be conservative, this exhibit uses the 90,000 lb. figure.

**BY USING LARGER AIRCRAFT CONTEMPLATED BY ITS PROPOSAL,
ARROW COULD MORE THAN DOUBLE ITS U.S.-ECUADOR SCHEDULED
CAPACITY WITHOUT BEING ASSIGNED ADDITIONAL FREQUENCIES**

Space-Based Capacity Analysis

Arrow's June 2002 U.S.-Ecuador Scheduled Service¹

Weekly Flights	Aircraft Type	Space-Based Aircraft Capacity²	Total Weekly Capacity
5	DC-8	9, 170 cu. ft.	45,850 cu. ft.

**Scheduled Service Arrow Could Now Operate With 747-200
Aircraft Shown in its Proposal**

Weekly Flights	Aircraft Type²	Space-Based Aircraft Capacity²	Total Weekly Capacity
5	747-200	25,837 cu. ft.	129,185 cu. ft.

Bilaterally Permissible Capacity as % of Existing Capacity: 282%

¹ Per Arrow Application, Exh. JW-B.

² Per Atlas Exh. 7. Arrow does not state in Exh. JW-B whether its current Ecuador schedule is operated with DC-8-62F or DC-8-63F aircraft. This exhibit uses the DC-8-63F cubic capacity figure.

**ARROW COULD IMPLEMENT ITS PROPOSED SERVICE
WITH ONLY TWO ADDITIONAL FREQUENCIES**

Arrow's Proposed U. S.-Ecuador Service¹

Weekly Flights	Market	Aircraft Type	Needed Frequencies
4	UIO/GYE	B747-200F	4
3	UIO/GYE	DC-10-30F	3

Total needed frequencies 7

Existing frequencies 5

Additional frequencies needed 2

¹ Per Arrow Application, Exh. RW-C. The schedule differs from that described in Arrow's initial application. This exhibit assumes that the Exh. RW-C schedule, submitted July 19, 2002, supercedes the earlier description.